

**REPORT OF THE AUDIT OF THE
CAMPBELL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Pendery, Campbell County Judge/Executive
Honorable John Dunn, Campbell County Sheriff
Members of the Campbell County Fiscal Court

The enclosed report prepared by VonLehman & Company, Inc. Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Campbell County, Kentucky, for the year ended December 31, 2004.

We engaged VonLehman & Company, Inc. to perform the financial audit of this statement. We worked closely with the firm during our report review process; VonLehman & Company, Inc. evaluated the Campbell County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CAMPBELL COUNTY SHERIFF

**For The Year Ended
December 31, 2004**

VonLehman and Company, Inc. has completed the Campbell County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the County Sheriff and the revenues, expenditures, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Campbell County Sheriff had total revenues of \$1,884,709, which was a \$169,824 increase from the prior year. Except for reimbursed expenses in the amount of \$78,594, the sheriff paid 25% of receipts to the Campbell County Fiscal Court in the amount of \$373,510. This was an increase of \$43,064 from the prior year. In addition, expenditures increased by \$10,778.

Report Comment:

- The County Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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The Honorable Steven Pendery, Campbell County Judge/Executive
Honorable John D. Dunn, Jr., Campbell County Sheriff
Members of the Campbell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Sheriff of Campbell County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2004. These financial statements are the responsibility of the County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the County Sheriff and the revenues, expenditures, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Honorable Steven Pendery, Campbell County Judge/Executive
Honorable John D. Dunn, Jr., Campbell County Sheriff
Members of the Campbell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Campbell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Von Lehman and Company, Inc.

Audit fieldwork completed -
September 28, 2005

CAMPBELL COUNTY
JOHN D. DUNN, JR., COUNTY SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Grants		\$	27,727
State Fees for Services			
Finance and Administration Cabinet	\$	138,973	
Return of Fugitives		<u>24,669</u>	163,642
Circuit Court Clerk			122,817
Fiscal Court			21,423
County Clerk			4,798
Commission on Taxes			1,303,448
Fees Collected for Services:			
Auto Inspections	\$	35,955	
Serving Papers		128,560	
Carrying Concealed Deadly Weapon Permits		12,345	
10% Additional Fees		54,838	
HB 413		<u>4,220</u>	235,918
Other Revenues:			
Interest Earned		4,608	
Miscellaneous		<u>328</u>	<u>4,936</u>
Total Revenues			1,884,709

Expenditures

Payments to State:			
Carrying Concealed Deadly Weapon Permits			8,245
Other Expenditures:			
Postage		14,000	
Serving Papers		41,850	
Travel Reimbursements		15,663	
Miscellaneous		<u>702</u>	<u>72,215</u>

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
JOHN D. DUNN, JR., COUNTY SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

Total Allowable Expenditures		<u>80,460</u>
Net Revenues		\$ 1,804,249
Payments to State Treasurer:		
75% Operating Fund	1,421,415	
25% County Fund	<u>373,510</u>	<u>1,794,925</u>
Balance Due at Completion of Audit		<u><u>\$ 9,324</u></u>

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
JOHN D. DUNN, JR., COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2004

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2004	\$ 226,811	-	\$ 226,811
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,421,415	-	1,421,415
Fees Paid to State - County Funds (25%)		373,510	373,510
Total Funds Available	1,648,226	373,510	2,021,736
<u>Expenditures</u>			
Campbell County Fiscal Court		373,510	373,510
Personnel Services-			
Deputies' Salaries	83,511	-	83,511
Part-Time Salaries	687,303	-	687,303
Employee Benefits-			
Employer's Share Social Security	55,979	-	55,979
Employer's Share Retirement	95,034	-	95,034
Employer's Paid Health Insurance	67,861	-	67,861
Dental and Life Insurance	8,535	-	8,535
Unemployment Insurance	4,609	-	4,609
Materials and Supplies-			
Office Supplies	47,658	-	47,658
Police Supplies	5,477	-	5,477
Other Charges-			
Vehicle Expense	41,173	-	41,173
Postage	2,693	-	2,693
Telephone	7,267	-	7,267
Dues	3,066	-	3,066
Rent	3,406	-	3,406
Legal Expense	7,100	-	7,100

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
 JOHN D. DUNN, JR., COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Travel Expense	510	-	510
Insurance Expense	17,453	-	17,453
Capital Outlay-			
Office Equipment	9,198	-	9,198
Police Equipment	6,559	-	6,559
Vehicle	46,548	-	46,548
Total Expenditures	1,200,940	373,510	1,574,450
Fund Balance - December 31, 2004	\$ 447,286	\$ 0	\$ 447,286

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

CAMPBELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent for the first six months and 22.08 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bonds which named the Sheriff as beneficiary/obligee on the bonds.

CAMPBELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004

Note 4. Travel Account

The Sheriff maintains a travel account for the return of fugitive's receipts that are reimbursed by the state. The account had a beginning balance of \$7 as of January 1, 2004. During the year, the Sheriff had receipts totaling \$24,980. Funds totaling \$15,663 were expended during the year. The unexpended balance was \$9,324 as of December 31, 2004.

Note 5. Balance Due at Completion Audit

The balance due at the completion of the audit is an accumulation in the travel account. This balance was paid to the Kentucky State Treasurer in July 2005.

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COMMENT AND RECOMMENDATION

CAMPBELL COUNTY
JOHN D. DUNN, JR., COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2004

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS

The County Sheriff's Office Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties.

Because of the limitations of the Sheriff's office, it appears that only compensating controls may achieve a proper segregation of duties. Compensating controls require the Sheriff's direct supervision over receipts and disbursements and include, but are not limited to the following:

- Cash recounted and deposited by the Sheriff.
- Surprise cash counts by the Sheriff.
- Reconciliation by the Sheriff of other monthly reports to source documents and receipts and disbursement ledgers.
- Requiring dual signatures on checks with one being that of the Sheriff.
- Examination by the Sheriff of checks for proper documentation that are prepared by another employee.
- Official mails checks.
- Require employees to be cross-trained.
- Require Employees to take mandatory vacations.
- Bank reconciliations prepared by the Sheriff.
- Publishing the financial statements.

We recommend that these controls be performed in order to offset a lack of adequate segregation of duties. Documentation of these controls should be maintained for the auditor in order to verify their existence.

Sheriff's Response:

None

PRIOR YEAR

Lacks Adequate Segregation Of Duties

This has not been corrected and is repeated.

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The Honorable Steven Pendery, Campbell County Judge/Executive
Honorable John D. Dunn, Jr., Campbell County Sheriff
Members of the Campbell County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements - regulatory basis of the Campbell County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated September 28, 2005. The County Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Campbell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comment and recommendation.

- The County Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Campbell County Sheriff's financial statements for the year ended December 31, 2004, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Von Lehman and Company, Inc.

Audit fieldwork completed -
September 28, 2005

